

Financial Highlights 1985

Hydro-Québec is a Québec government-owned electric utility that ensures the generation, transmission and distribution of almost all the electricity sold in Québec. Created in 1944 and transformed into a joint stock company in 1981, it has the mandate to supply power and to pursue endeavors in energy-related research and promotion, energy conversion and conservation, and in any field connected with or related to power or energy.

This brochure is designed to provide a rapid overview of the financial performance of Hydro-Québec from its creation in 1944 to the end of 1985, and of its financial perspectives for the coming years as set forth in its *Development Plan 1986-1988*, *Horizon 1995*. Charts and tables show the evolution of the main balance sheet items and operating results, along with parameters illustrating Hydro-Québec's financial and economic situation.

Cette brochure est également publiée en français.

FINANCIAL PROFILE

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- Fixed Assets
- Long-Term Debt
- Shareholder's Equity
- Structure of Capital
- Breakdown of Long-Term Debt and Interest Rates

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- Revenue Resulting from Marketing Programs in Québec
- Hydro-Québec Export Energy Agreements
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- Residential Electricity Rates in Canada, the United States, Europe and Japan

Finance and Resources Group Personnel
Business Reply Card

April 1986

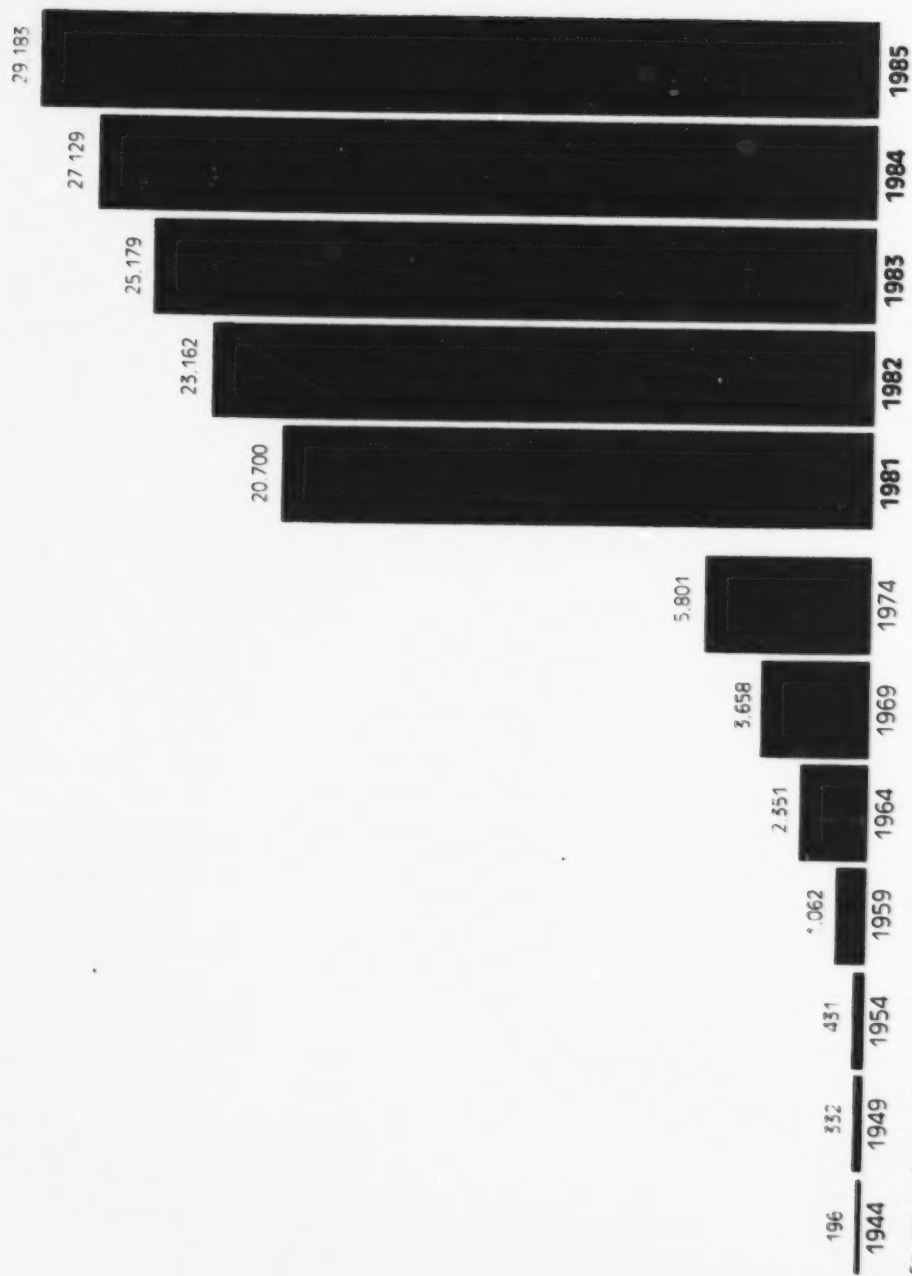
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Hydro-Québec

Total Assets 1944-1985
(in millions of Canadian dollars)

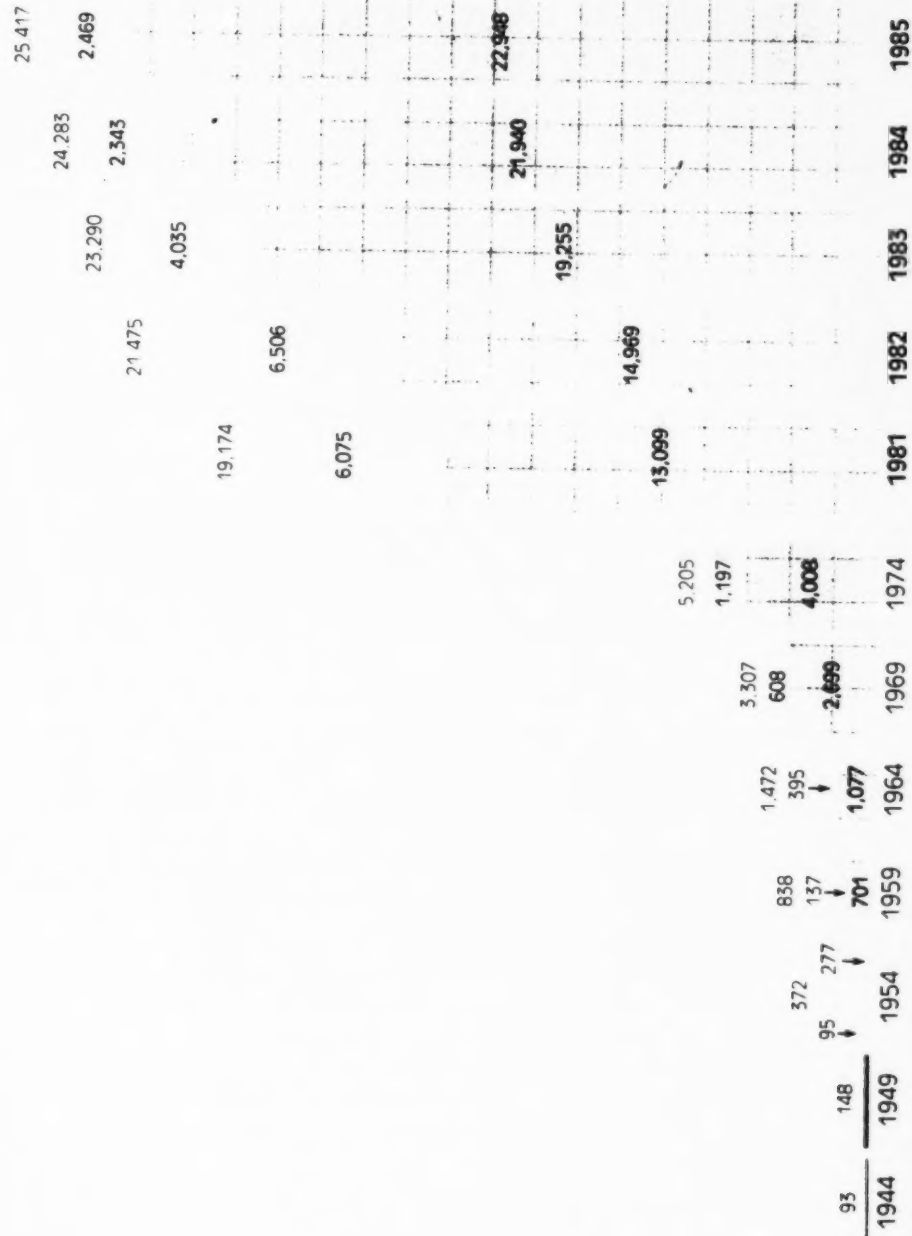


Source: Hydro-Québec Annual Reports

Average annual increase 1980-1985: 10.14%

Hydro-Québec

Fixed Assets 1944-1985 (in millions of Canadian dollars)

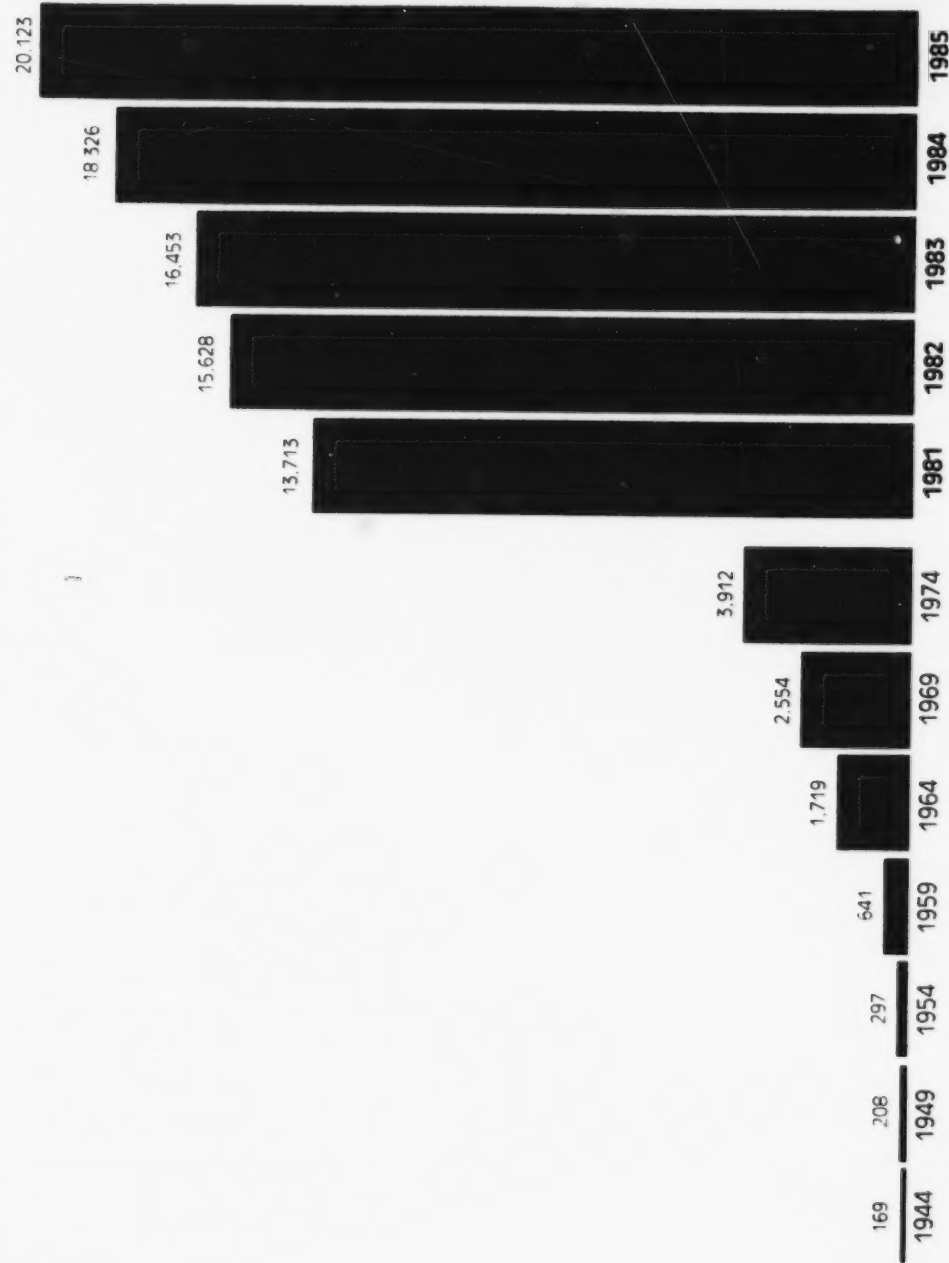


Source: Hydro-Québec Annual Reports

Average annual increase 1980-1985: 8.68%

Hydro-Québec

Long-Term Debt* 1944-1985
(in millions of Canadian dollars)



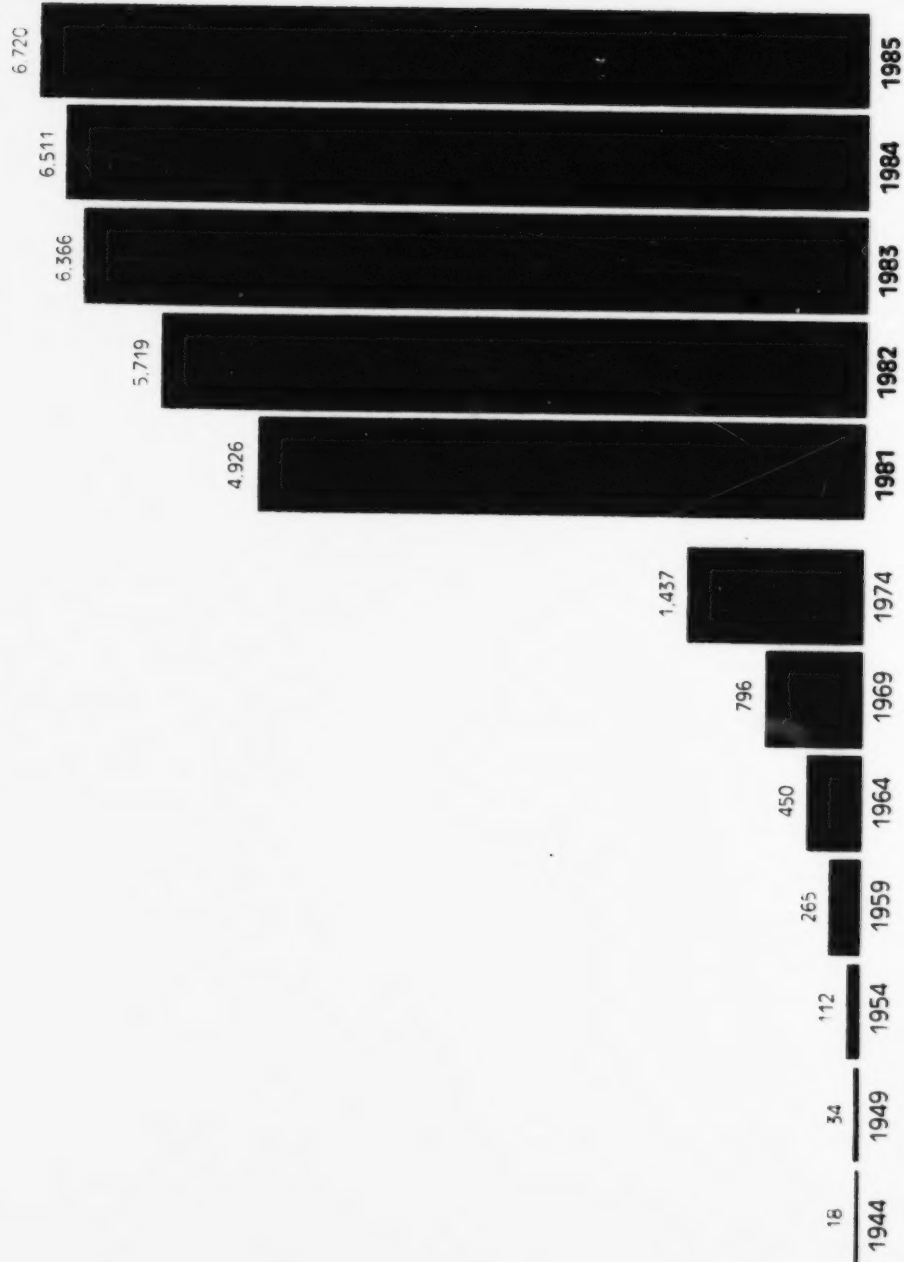
Source: Hydro-Québec Annual Reports

Average annual increase 1980-1985: 10.70%

*Excluding long-term debt payable within one year.

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Shareholder's Equity 1944-1985
(in millions of Canadian dollars)

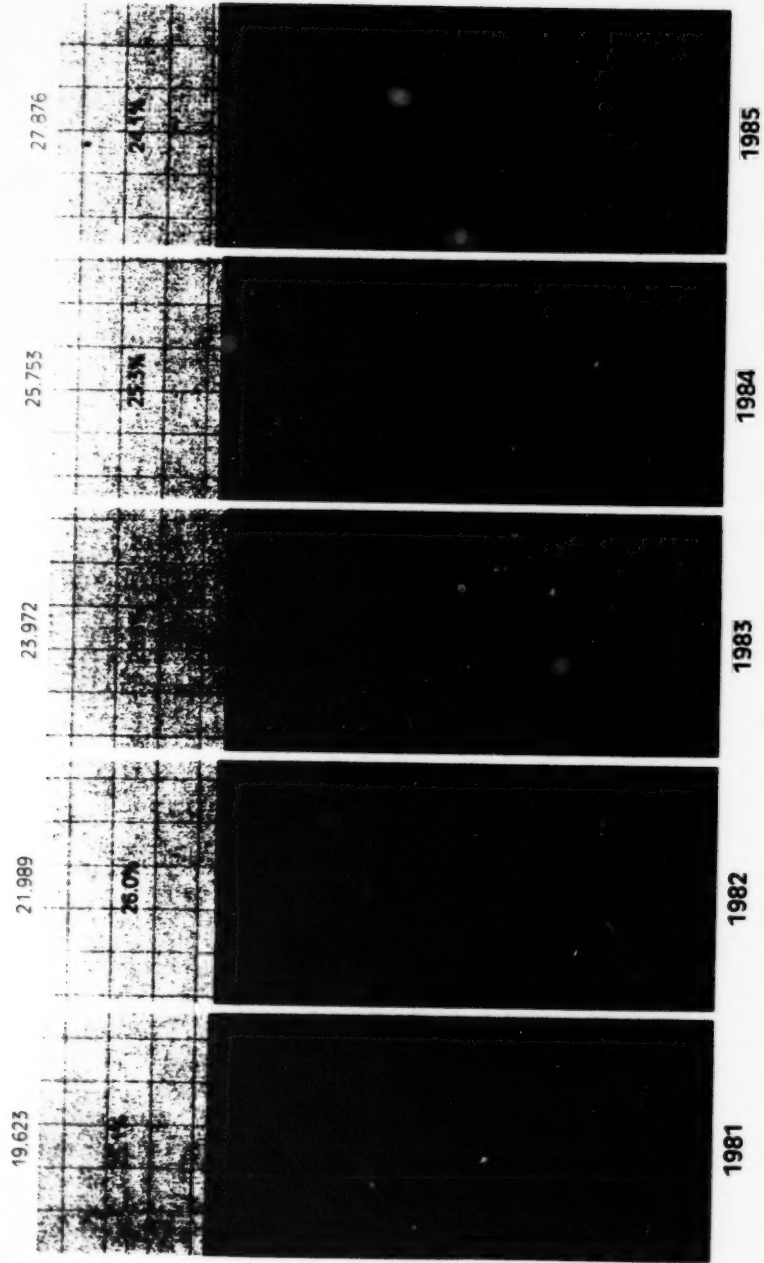


Source: Hydro-Québec Annual Reports

Average annual increase 1980-1985: 8.97 %

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Structure of Capital 1981-1985
(in millions of Canadian dollars)

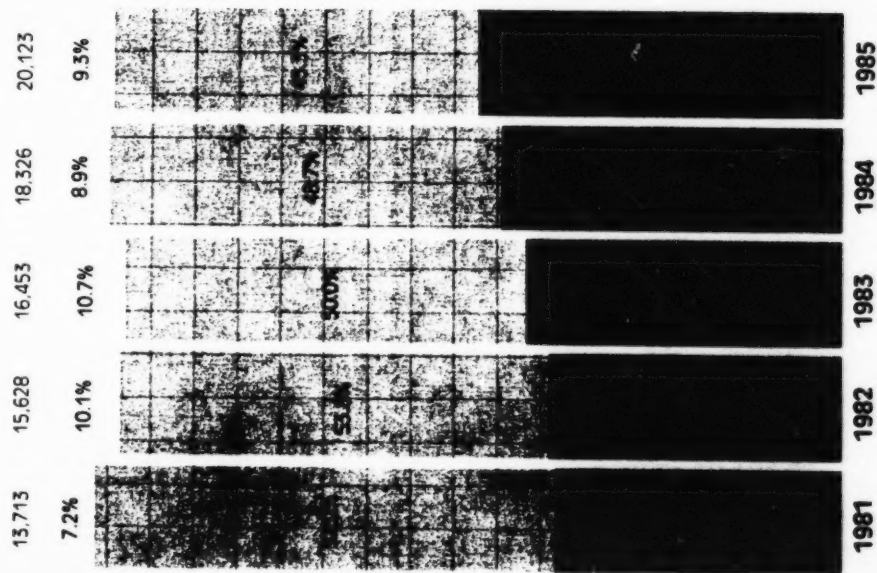


□ Shareholder's equity

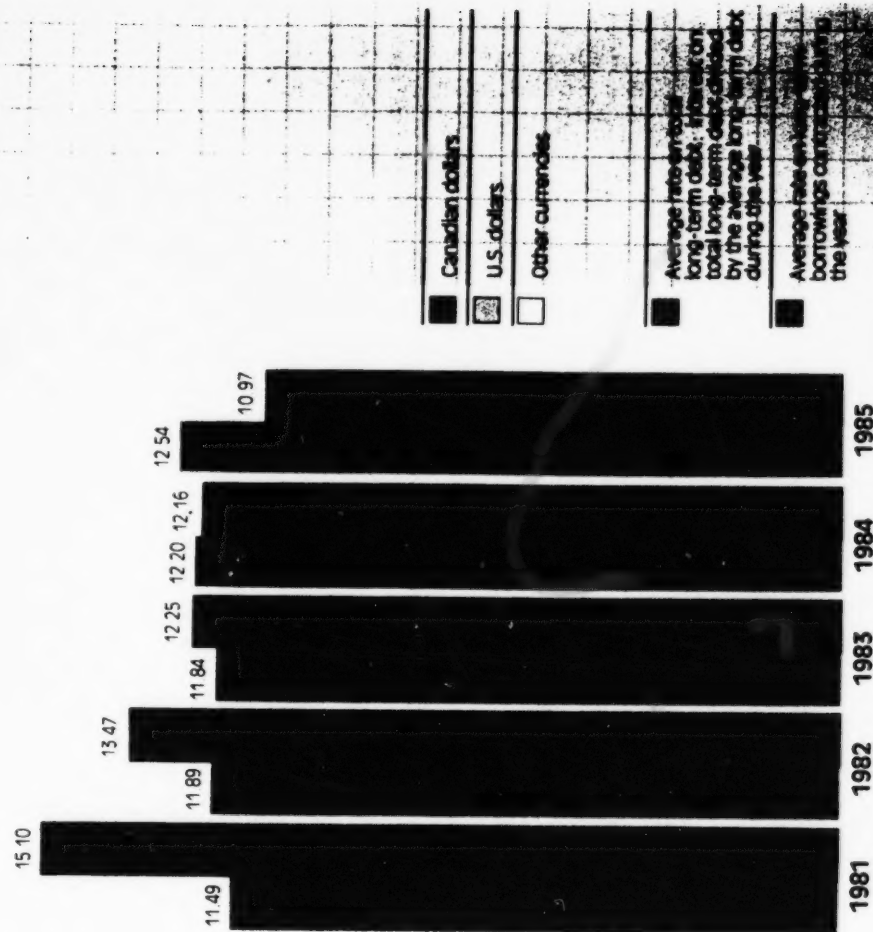
■ Borrowed capital: long-term debt, notes payable and long-term debt payable within one year

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Breakdown of Long-Term Debt 1981-1985 (in millions of Canadian dollars)



Interest on Long-Term Debt 1981-1985 (in percent)



Figures take account of currency-exchange contracts (SWAPS).

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Financial Strategy

To increase sales of electricity through vigorous marketing on all markets, both inside and outside Québec.

To optimize Hydro-Québec's financial situation through:

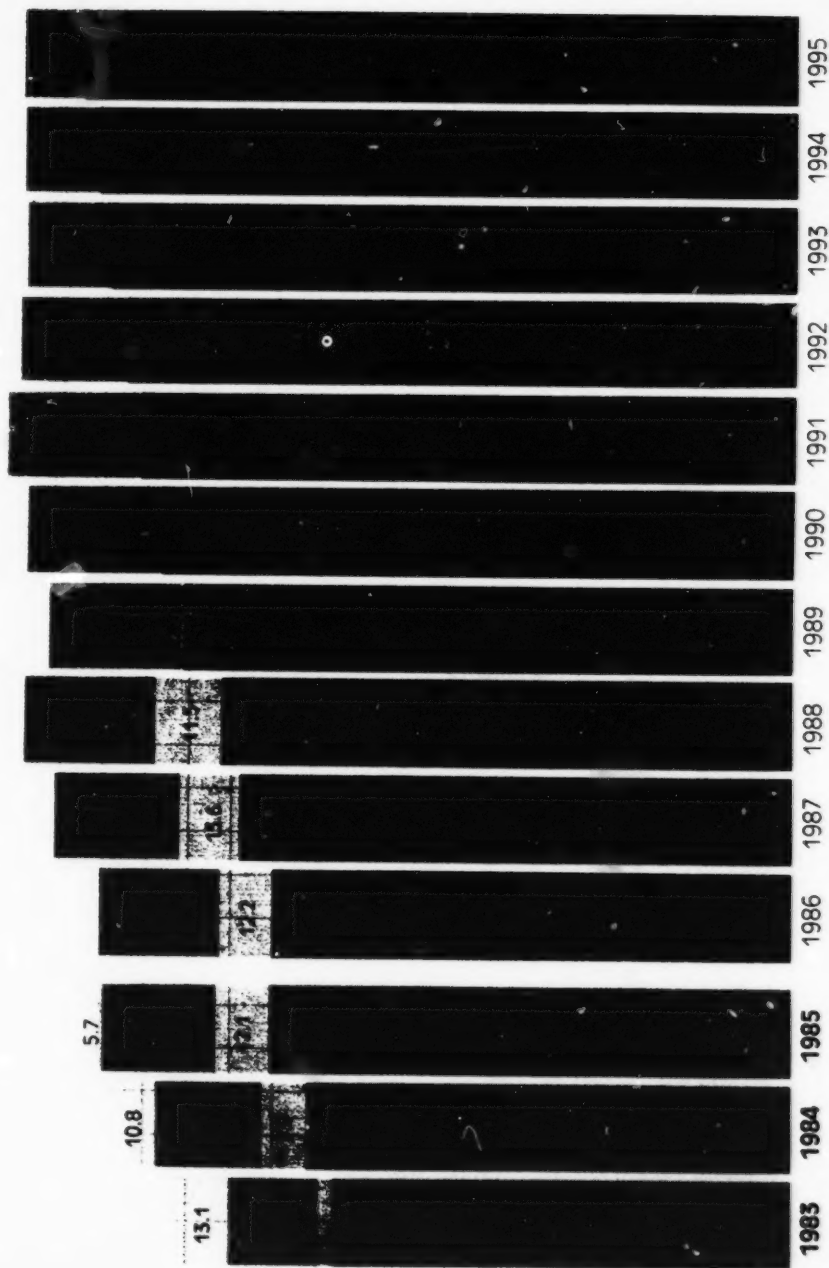
- compression of operating and maintenance expenditures
- respect of essential financial criteria:
 - interest coverage of 1.00
 - capitalization ratio of 25%
- acceptance of a reduction in net income in the short term.

Hydro-Québec

Utilization of Available Energy 1983-1995

(in billions of kilowatthours)

Forecast



Priority requirements in Québec

Sales of surplus electricity in Québec

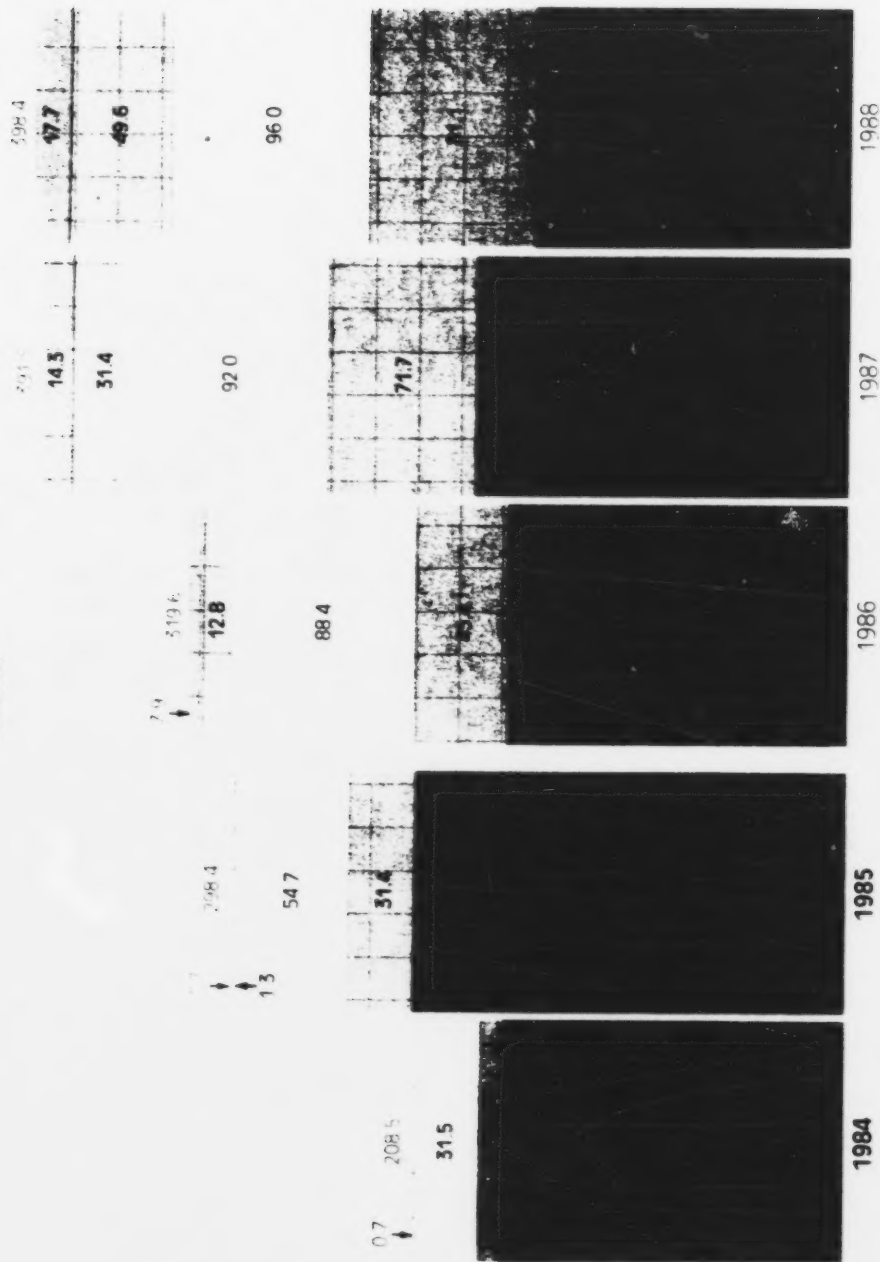
Sales of electricity outside Québec

Unsold surpluses

Revenue Resulting from Marketing Programs In Québec 1984-1988

(In millions of Canadian dollars)

Forecast



Program for electrification of industrial boilers

Rate discount program for industry

Grant program for installation of dual-energy heating

Electrotechnology implementation assistance program

Other Electric water-heating conversion program, projects for all electricity systems and promotion of off-peak usage

Export Energy Agreements

	Effective date	Expiry date	Type of energy	Annual maximum delivery in millions of kilowatts	Total maximum deliveries where applicable in millions of kilowatts
Canada					
New Brunswick Electric Power Commission Interconnection agreement	1979	—	Surplus	7.0	
Ontario Hydro Sales contract	1982	1987	Firm	2.0	12.5
Interconnection agreement	1979	—	Surplus	8.7	
St. Lawrence Power Company Sales contract	1985	1990	Firm	0.4	2.0
United States					
New York Power Authority (NYPA) Sales contract	1977	1998	Firm	3.0	111.0
Sales contract	1984	1997	Surplus	11.0	
Interconnection agreement	1978	1996	Surplus	6.0	
Niagara Mohawk Interconnection agreement	1982	—	Surplus	1.8	
New England Power Pool (NEPOOL) Sales contract	1986	1997	Surplus	4.0	33.0
Interconnection agreement	1986	—	Surplus	2.0	
Energy banking agreement	1986	2004	Firm		
New England Utilities Sales contract	1990	2000	Firm	7.0	70.0
Vermont Department of Public Service Sales contract	1985	1995	Firm	1.3	13.0

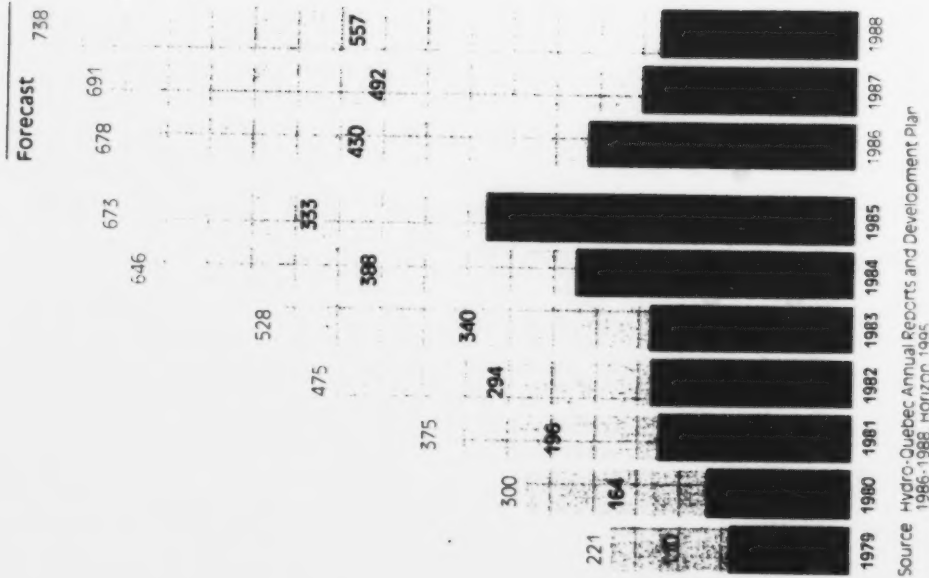
(1) Interconnection agreements cover potential sales of different categories of electricity by either party to the other. The amount of energy sold depends on the requirements of the purchasing party and the surplus available to the selling party. The agreements are revised every two years and can be terminated with notice by either party. An expiration date is specified. The annual maximum deliveries indicated are based on line capacity. Actual deliveries depend on specific agreements.

(2) This agreement involves the sale of electricity to Quebec by the NEPOOL System during off-peak hours, enabling Hydro-Québec to share in the revenues and return on investment when NEPOOL's production costs are higher.

(3) Contract signed in 1984 by 1985. The price of electricity determined by the price set in 1985 and indexed to the price of the weighted annual cost of the fuel, determined by the NEPOOL.

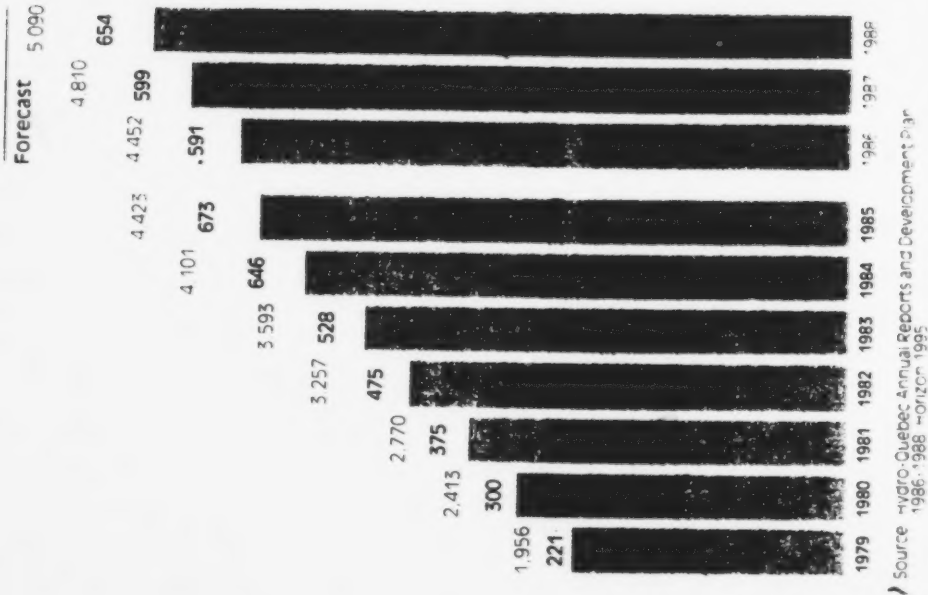
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Gross Revenue from Electricity Sales Outside Québec 1979-1988 (In millions of Canadian dollars)



Average annual increase 1979-1985: 20.39 %
1979-1988: 14.34 %

Revenue from Total Electricity Sales 1979-1988 (In millions of Canadian dollars)

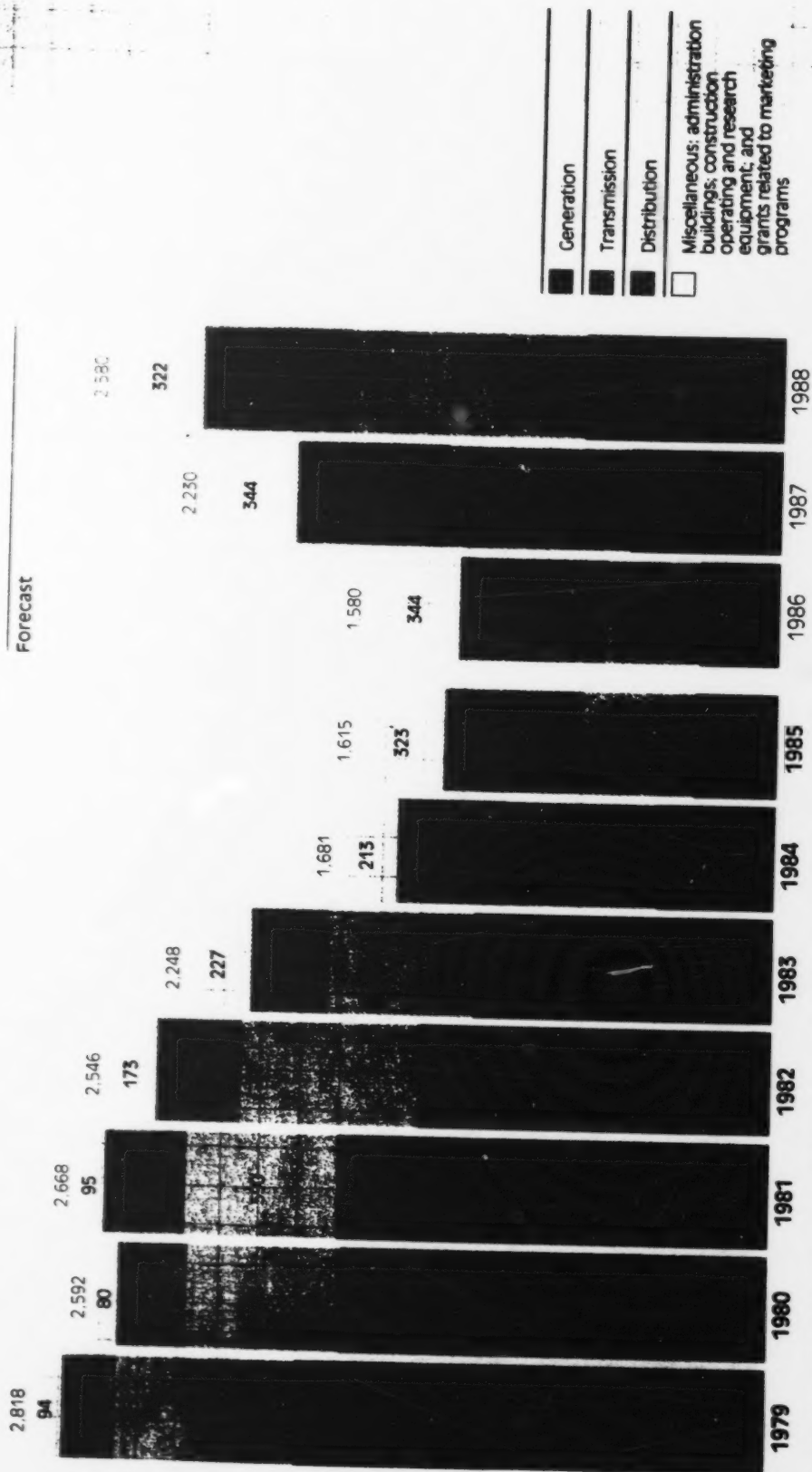


Average annual growth 1979-1985: 14.57 %
1979-1988: 11.21 %

Other Canadian provinces
United States
Sales in Québec
Sales Outside Québec
(Beginning in 1986, an amount will be deducted from the revenue from sales to the United States to cover the exchange loss on foreign American dollars falling back during the year.)

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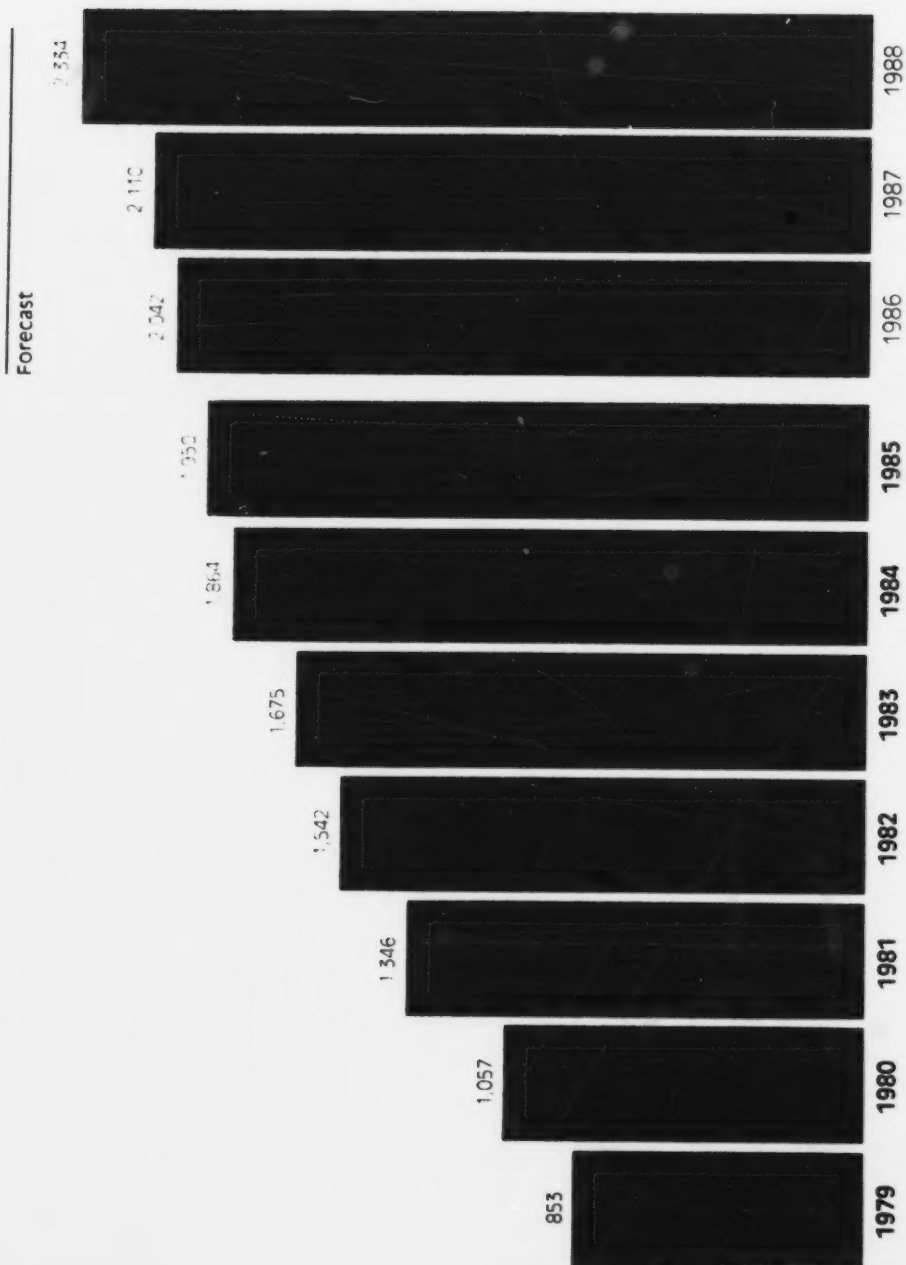
Investments 1979-1988 (in millions of Canadian dollars)



Source: Hydro-Québec Annual Reports and Development Plan 1986-1988. Horizon 1995

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Expenditures 1979-1988
(in millions of Canadian dollars)

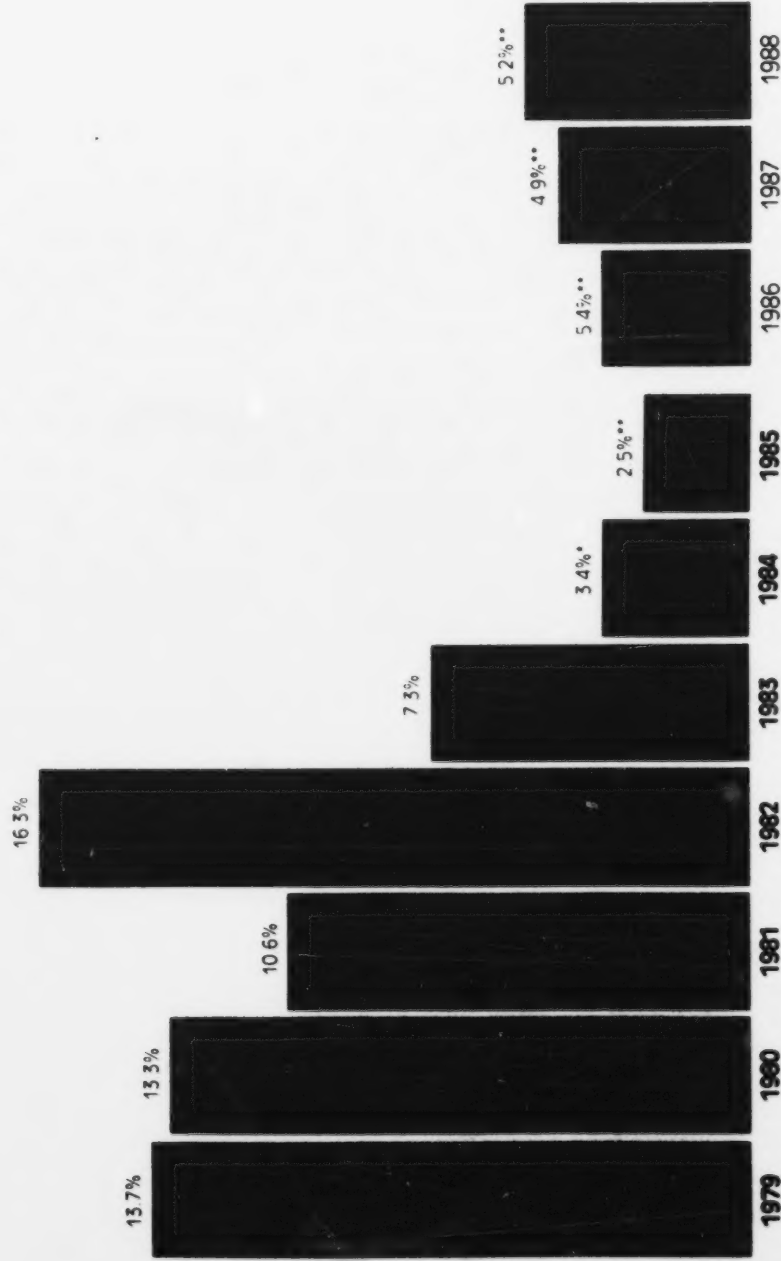


Average annual increase 1979-1983: 18.38%
1983-1988: 6.86%

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Rate Increases 1979-1988

Forecast



Source: Hydro-Québec Annual Reports and Development Plan 1986-1988, Horizon 1995

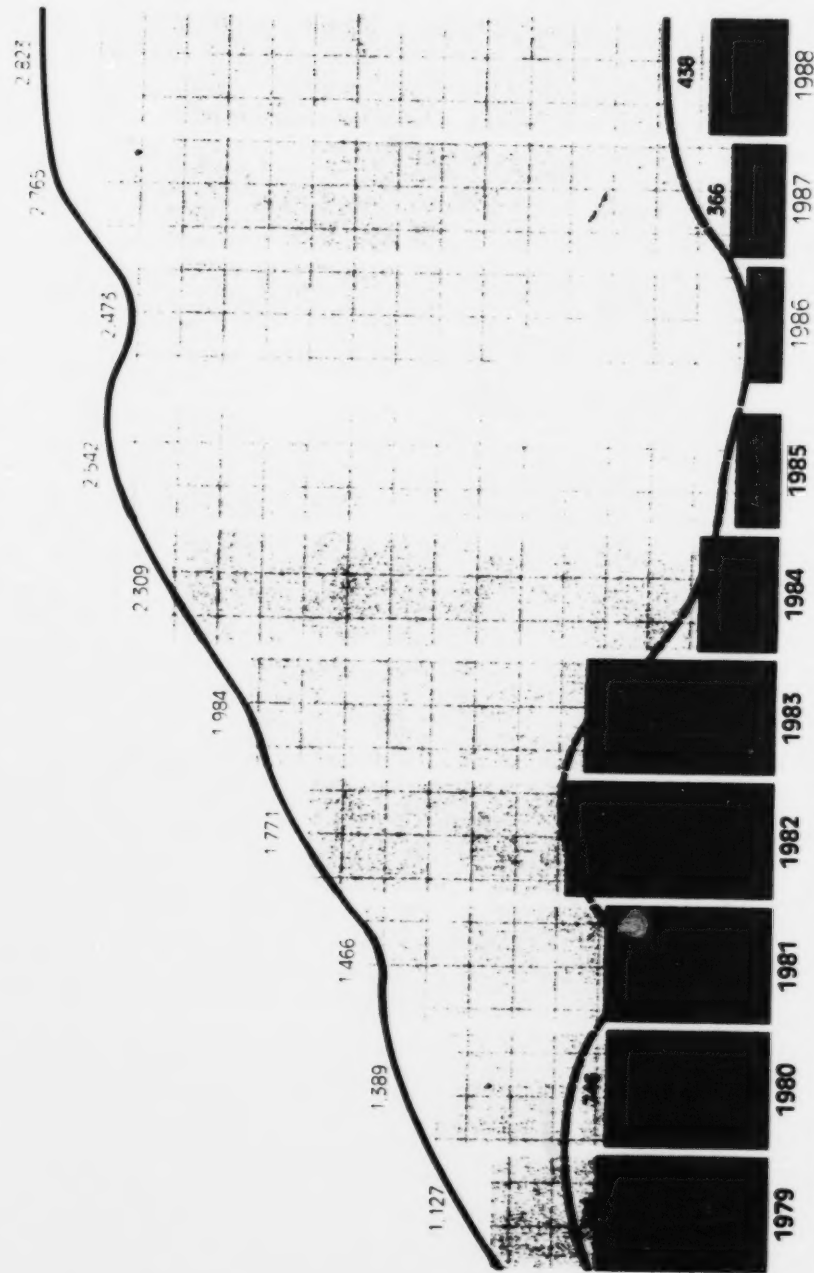
* Effective February 1 - Increase for the year January-December: 5.1%

** Effective May 1 - Increase for the year January-December: 1.9% in 1985, 4.4% in 1986 and 5.1% in 1987 and 1988.

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Net Income 1979-1988 (in millions of Canadian dollars)

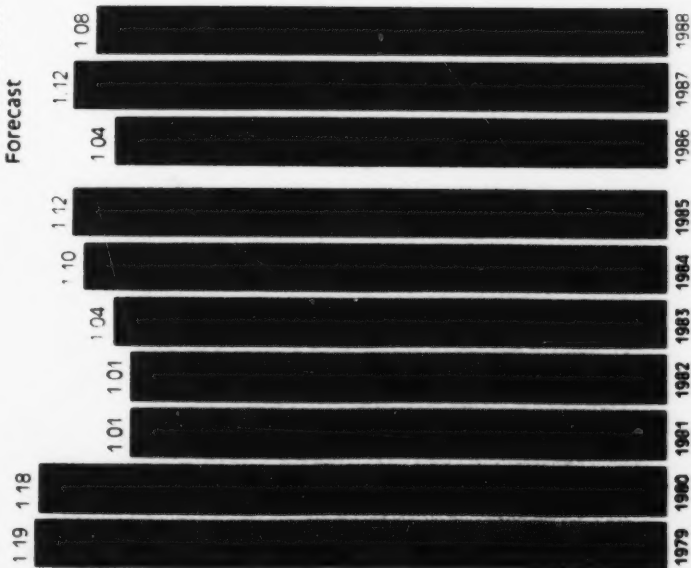
Forecast



Source: Hydro-Québec Annual Reports and Development Plan 1986-1988. Horizon 1995

Interest Coverage* 1979-1988 (before dividends)

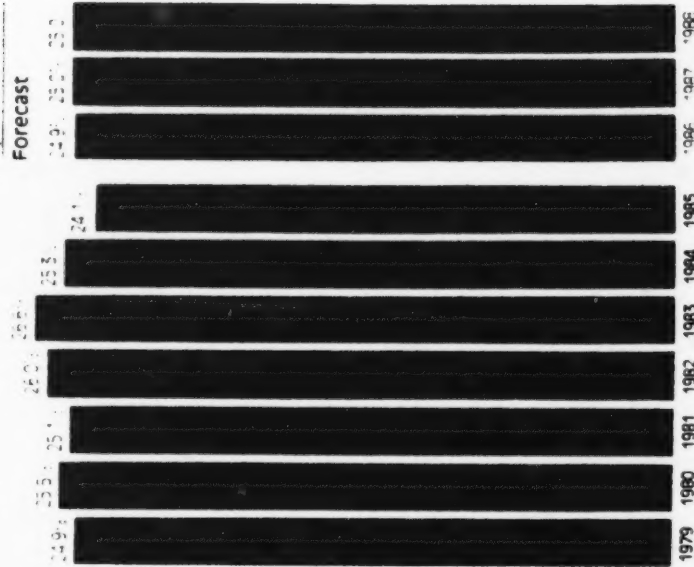
Income before interest and exchange loss
- Net investment income
Gross interest charges



Source: Hydro-Québec Annual Reports and Development Plan 1986-1988 Horizon 1995

Capitalization Ratio** 1979-1988

Shareholder's equity
Shareholder's equity - Long-term debt - Notes payable
Long-term debt payable within one year



Source: Hydro-Québec Annual Reports and Development Plan 1986-1988 Horizon 1995

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Funds Provided by Operations 1979-1988

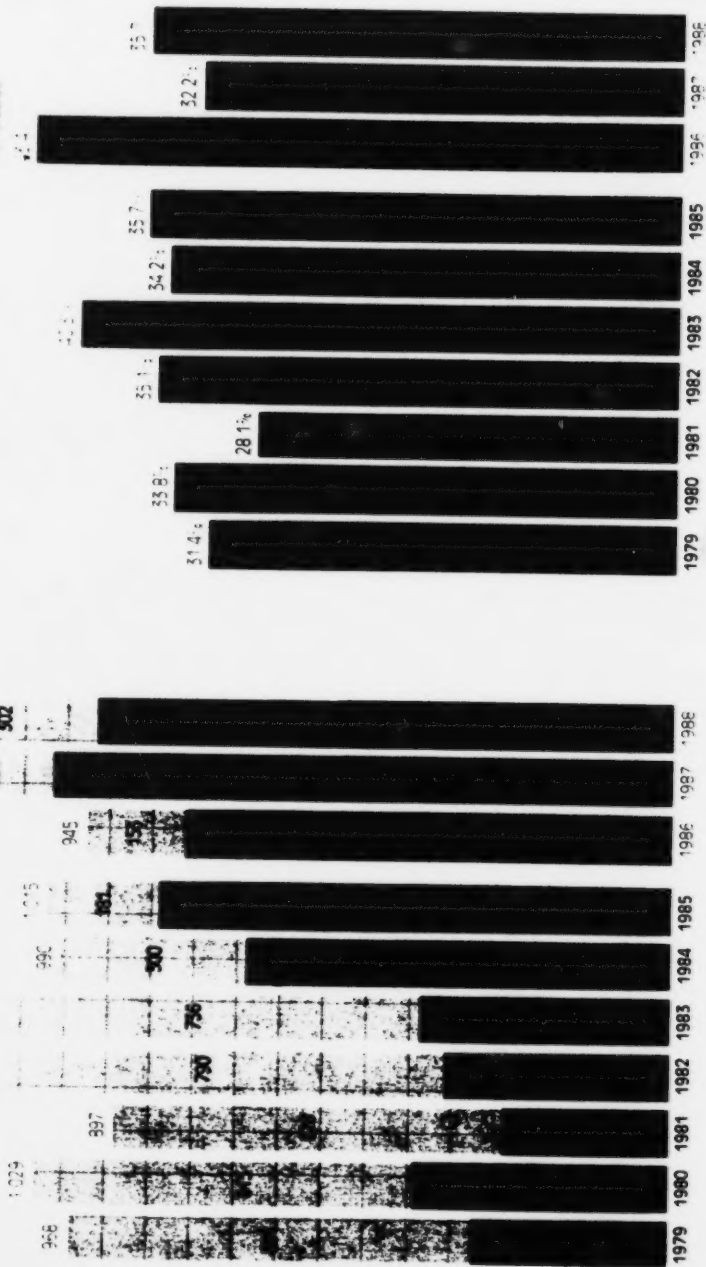
(in millions of Canadian dollars)

Self-Financing* 1979-1988

Forecast

Total funds provided by operations
Declared dividends
Investments - Redemption of debentures and other
long-term debt

Forecast



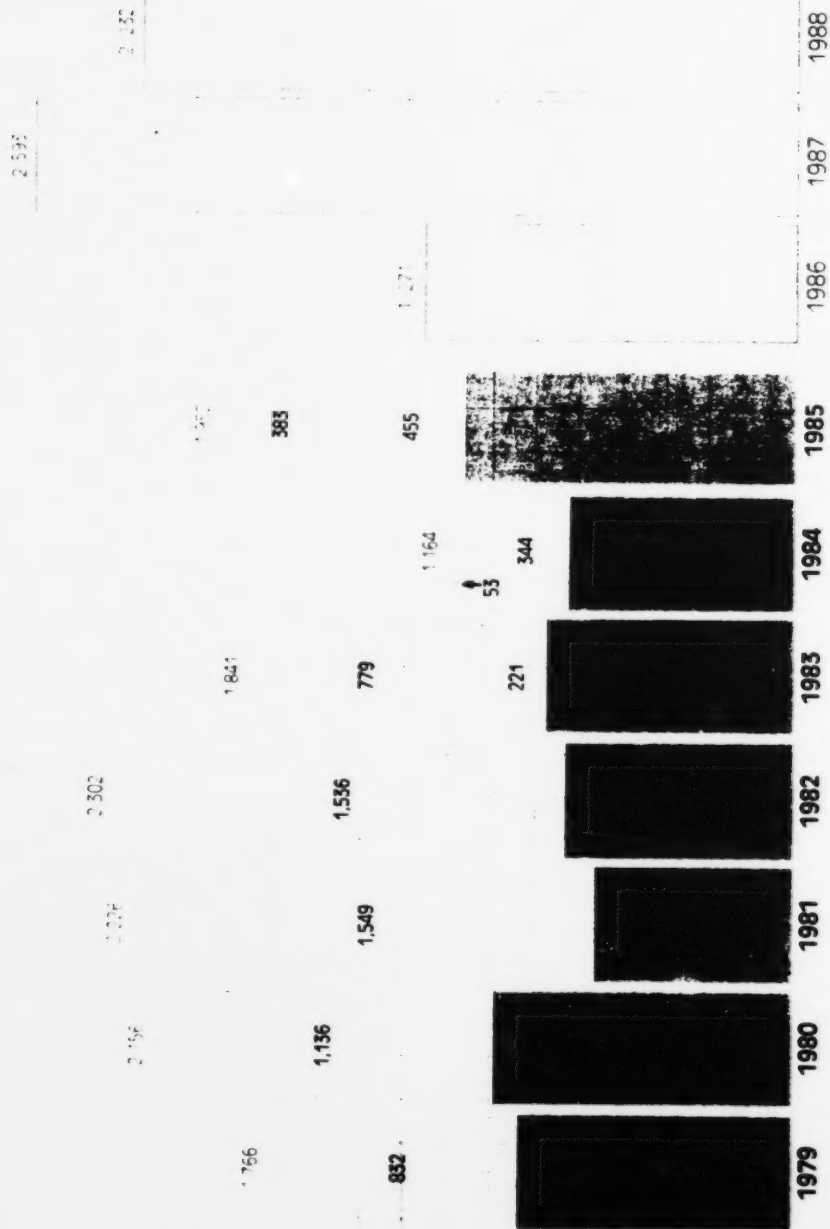
Funds provided by operations
excludes interest charged to
Construction in progress

Interest charged to
Construction in progress

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Financing in Canadian Dollars In Relation to Net Issues 1979-1988 (in millions of Canadian dollars)

Forecast



☒ Loans taken out in Canadian dollars

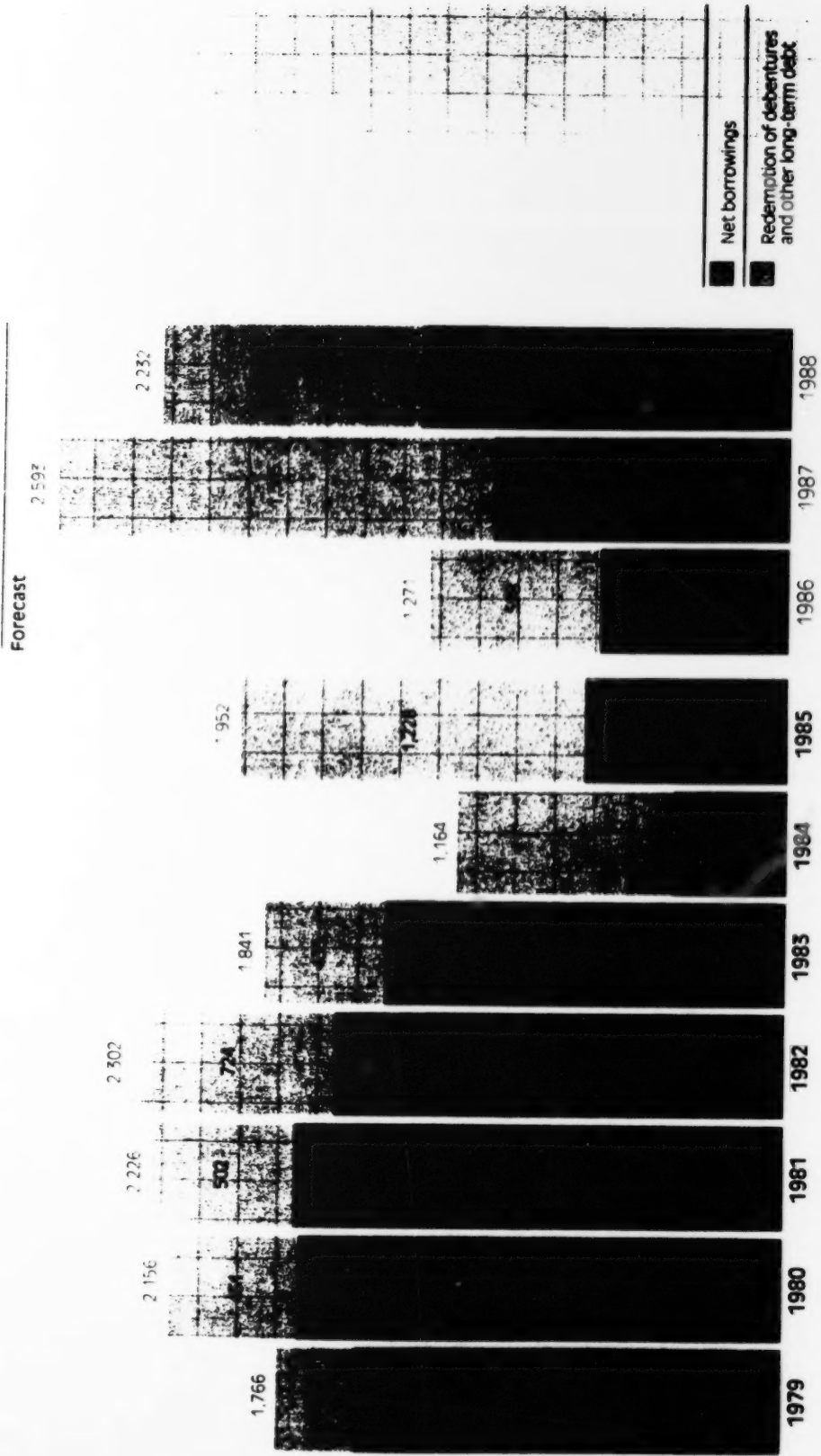
☐ SWAPS contracts to convert foreign-currency loans into Canadian dollars.

☐ Foreign currencies

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Debt Issuance and Other Long-Term Debt 1979-1988 (in millions of Canadian dollars)

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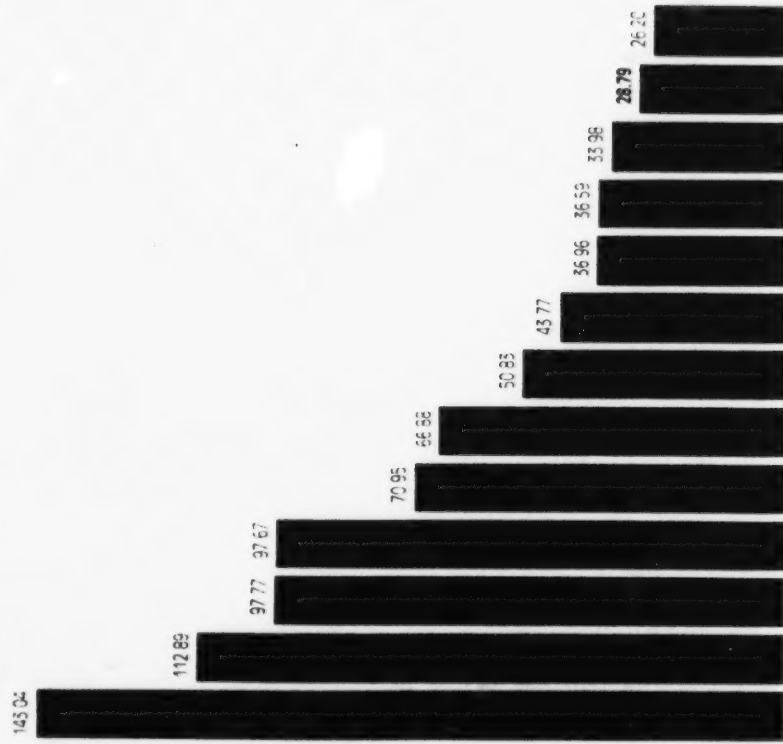


Development Orientations

- Domestic marketing focused on customer satisfaction, based on a pricing policy which maximizes the comparative advantage of hydroelectricity for Québec;
- Marketing outside Québec to maximize profits from export sales as well as the other advantages offered by interconnections with neighboring systems;
- More flexible development of the generating and transmission system taking into account all profitable markets;
- Quality of service which responds to the expectations of all customer categories;
- Technological development oriented toward the utility's short, medium and long-term needs, together with technological leadership directed towards the gradual diversification of the company's activities.

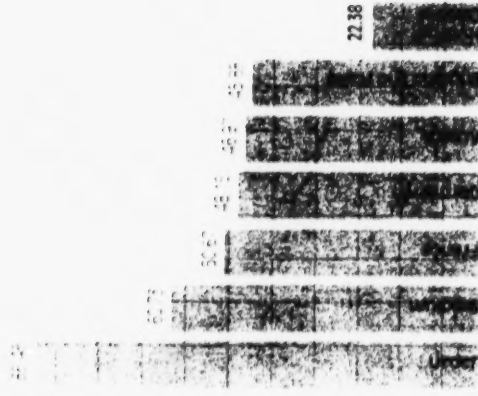
Residential Electricity Rates In Canada, the United States, Europe and Japan (in U.S. dollars) **Canada and the United States**

Monthly bill of a residential customer for 1 000 kilowatthours (tax excluded) at March 1, 1985



Source: information obtained directly from the utilities concerned

Monthly bill of a residential customer for 625 kilowatthours (including tax) at August 1, 1984



Source: Report of the Electricity Council, London

Europe and Japan

**Further information may be obtained from the Principal
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GERMAIN, Claude	Director, Financing and Assistant Treasurer -2517
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GRÉGOIRE, Normand	Manager, Financing and Assistant Treasurer -2135
OLIVIER, Pierre	Manager, Retirement Funds Management -2136
PICHÉ, Bernard	Manager, Financial Planning -3826
ROZON, André	Manager, Funds and Debt Management and Assistant Treasurer -2716
DUBÉ, Pierre	Manager, Financial Control and Systems -3625
ST-MICHEL, André	Manager, Money Markets and Foreign Exchange -2514

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Nature of Company's Activity _____

Assets _____

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☐ a portfolio manager

☐ a financial analyst

☐ an independent investor

☐ other (please give details) _____

